

2 November 1959

Chief, Economic Research, ORR

Chief, Analysis Division, ORR

D/A Comments on Draft of Address by DCI to the Subcommittee
on Economic Statistics, Joint Economic Committee

1. Comments which follow are identified by page and line of
your draft.

p. 2, line 4: That's quite a promise!

p. 3, last para: Suggest replacing ...most respected economist
in the Soviet Union,... with ...dean of Soviet economists,...

p. 3, last line: Suggest replacing ...demolished... with
...deflated...

p. 4, 3rd full para: Insert in 2nd sentence after ...industry,
....a well developed rail transport net,...

p. 6, last para., lines 4 and 5: Change to read: ...estimate of
civilian production is higher than the National Bureau's estimate
because of the larger sample used. The most important differences...

p. 7, 1st full para., line 3: Delete ...such...

p. 7, 1st full para., lines 10 and 11: Change end of sentence
to read: ...growing about twice as rapidly as that of the United States.

p. 12, last para: Delete last sentence.

p. 13, 2nd full para: Delete this paragraph and substitute--

Our own analysis of Soviet industrial production concludes that
it was about 40 percent of the US in 1958 and about 35 percent in 1957.
Using 1957 as a normal base year and a 4 1/2 percent growth rate for US
industrial production versus the scheduled Soviet rate of 8.6 percent,
Soviet industrial production could reach a level of about 60 percent
of the US by 1970. [50 percent by 1965] Under assumptions more
favorable to the USSR--9 percent for the USSR and no better than 4 per-
cent for the US--the USSR would reach a level of industrial output
about 65 percent of the US level by 1970.

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p. 15, line 1: Change the first sentence to read--'Their economy is forging ahead more rapidly than ours.'

2. In addition to the specific changes suggested above, the following additions could be made:

p. 11, 2nd full para: This paragraph could be expanded to read--

On the other hand, we see no prospect that the agricultural goals of the seven year plan will be approached. The dramatic increase of 50 percent achieved in the 1952-58 period was the result of a six-year effort to raise agriculture out of the trough in which Stalin had left it. A variety of factors including increased inputs of resources, more efficient use of resources, and at least two unusually good weather years contributed to this record growth. We estimate, however, that these resource and efficiency gains will not be repetitive in the present plan period and that net agricultural output, given average weather, will not increase more than 18 to 20 percent over 1958 by 1965. Such a modest growth is well below the implied planned growth of 55-60 percent and the regime may be stimulated to undertake drastic new programs or new resource commitments not presently planned. Because we estimate the agricultural sector of the Soviet economy to be its least efficient component we do not reject the possibility that growth in this sector could be more rapid than we presently expect.

p. 11, last para: Insert before this paragraph some, or all, of the following paragraphs dealing with the problems of the seven year plan--

In addition to the problem of agricultural growth, economic expansion during the seven year plan will be forced to cope with other difficulties. While these problems are significant we believe their impact is such as to place a ceiling on the Kremlin's ambitions for overfulfillment rather than to threaten the success of the plan.

There is, during the plan period, an obvious gap between the 1958-65 increase in the number of persons in the working age group (15-69) and the labor force increment necessary to meet the planned goals. The regime has recognized this problem and has taken, or can take, steps to increase the rate of participation and thus mitigate its effects.

To produce the desired industrial growth, and to provide the base for future growth, developmental expenditures in the growth producing raw materials and energy sectors--to a large extent postponed

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in 1950-55--must be sharply increased. In acting on this problem, these sectors are scheduled to receive about 47 percent of total industrial capital investment in the plan period, up from about 33 percent in the previous 7 year period.

In construction, the vastly increased housing program presents the greatest single claim on construction resources. It must compete with a requirement for the industrial construction sector to greatly improve on its past performance record in completing industrial projects with the time and funds allotted. Improvements in both the construction and construction materials industries should continue, however, and we think the overall construction plan can be fulfilled.

Finally, the regime faces a complexity of problems in its intention to increase the importation and adoption of new technology in the implementation of the automation and mechanization program. The introduction of complex and highly specialized production equipment on a large scale together with more frequent introduction of new models of producer durables on a serial production basis may cause difficulties but, as far as we can tell, specific shortfalls can be offset by the massive investment program.

p. 11, last para: If some or all of the above paragraphs are used, change the first line of this paragraph to read--

Primarily, then, because of a slowdown in the rate of growth of agriculture, we...

p. 15: The final paragraph could be expanded to several paragraphs to include much of what was in the D/A draft and still pack the policy wallop contained in your draft.

With the economic gains expected in the present plan period Soviet military spending could increase by over 50 percent without increasing the relative burden on their economy. Additional improvements in the standard of living can also be made without sacrificing the present emphasis on heavy industry and armaments. Even though these increases will still leave the Soviet consumer in poor shape compared with our own, the partial satiation it will afford should do much to ensure the stability of the regime.

Finally, these economic gains will provide the goods--and the services--needed to further expand Soviet economic penetration of the

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uncommitted and underdeveloped nations of the Free World and to further assist in the rapid economic growth of the Kremlin's eastern ally, Communist China.

The Soviet economic threat then is a Devil's trident with three pointed challenges which we must meet in order to survive. Through our own and our Allies economic achievements we must simultaneously: Contain the Soviet military threat; successfully meet the challenge in the uncommitted and underdeveloped areas; and demonstrate superiority of our own economic system for all to see.

Their economy is forging ahead more rapidly than ours. Their people are making very great sacrifices to achieve economic and military supremacy, ours are far more complacent. I am confident we have the time and ability to accomplish these tasks. Do we have the will to do so?

3. If even more "fill" is needed I suggest several paragraphs on economic penetration from D/S.

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